

TATA CAPITAL

Healthcare Fund

Private Healthcare 2024

Deal Outlook



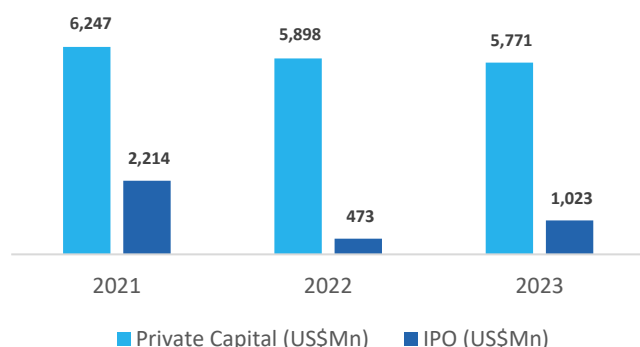
India Healthcare / life-sciences Private Healthcare Deal Outlook - 2024

The Healthcare and Lifesciences sector in India received total investments (private capital + IPO) of ~US\$6.8 Bn in 2023, registering a 6.6% annual growth. The total private capital registered a negative 2% de-growth as early stage investments were muted while the IPO segment grew by 116%, thanks to an upbeat public market environment. The sector's share of private capital continues to stand at ~12% of the total funding in the country and the segment received the second highest allocation of private capital over the past 3.5 years.

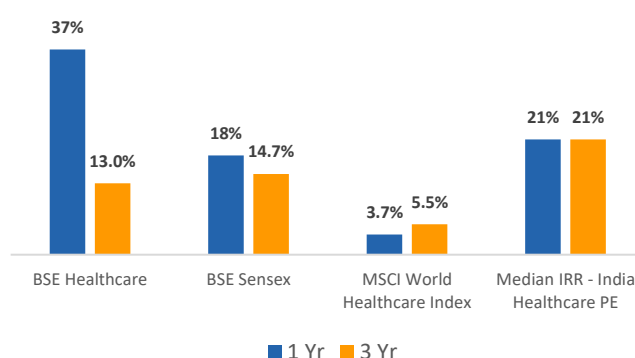
The public market performance of the BSE healthcare index was stellar over the past year with a 37% return in 12 months; the BSE Sensex returned 18% over the same period however the BSE healthcare index underperformed the broader BSE Index over a 3-year period by 1.7%. The outperformance over the past year augured well for companies looking to raise capital via IPO market and we saw 6 main board IPOs in the healthcare segment cumulatively raising ~US\$1Bn. Looking ahead to 2024, we believe that investors will remain cautious for first 6 months (Jan 2024-Jun 2024) due to the central government elections around the corner. If electoral outcomes are in line with market expectations, we can expect to see a continued buoyant IPO environment.

Looking ahead we dissect the year gone and assess the emerging trends for the next years – 1) We believe a new base of US\$5Bn+ private capital for the sector has been formed and we expect this to be minimum capital getting allocated to the sector for the next 5 years. 2) The average ticket size in 2023 shot up by 50% but we believe this is an aberration caused due to a 9-year low deal volume. 3) Healthcare Delivery segment cornered 84% of the capital which we believe is a one-off event and segments such as pharmaceuticals and medical devices will see more capital allocation in 2024. 4) We expect growth stage transactions to make a comeback in 2024 (15% in 2023) and contribute to atleast 50% of capital contribution.

Private (VC + PE) and IPO Capital Investment in Healthcare (2021- 2023)



Private Capital Investment in Healthcare (1-Yr and 3-Yr) – Returns (%)



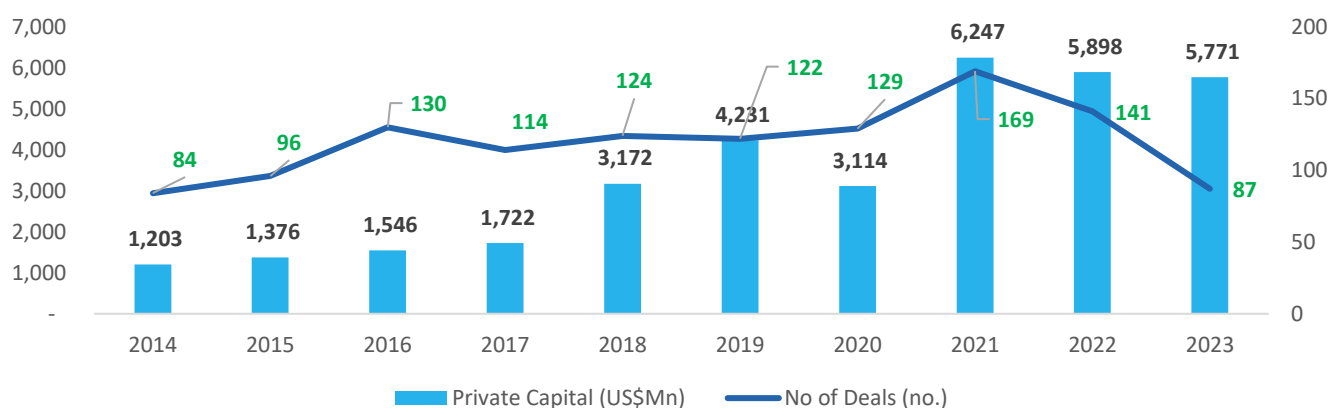
Source: Venture Intelligence, BSE, TCHF Internal estimates

Noteworthy trends at play for private healthcare deal outlook

1. Private Capital funding stable at US\$ 5.5Bn+ but deal volume hits a 9-year low

Over the past 10 years, the healthcare and lifesciences sector has attracted over US\$34Bn in private capital across ~1200 transactions. Post COVID, the segment has consistently drawn US\$5.5 Bn+ in private capital despite a weak macroeconomic environment and the global funding winter. However, the segment deal volume fell to a 9-year low with only 87 transactions completed in the segment due to the weak early stage investment environment. We expect some recovery in the early stage segment in 2024. We believe investors continue to have a positive outlook towards the segment driven by fundamentals such as demand-supply mismatch, growing healthcare consumption and positive healthcare regulatory environment. We expect the momentum to continue through this decade and expect the sector will cumulatively attract ~\$35Bn in funding by 2030.

India Healthcare Private Investments (2014-23) – Value (US\$Mn) and Volume (no.)

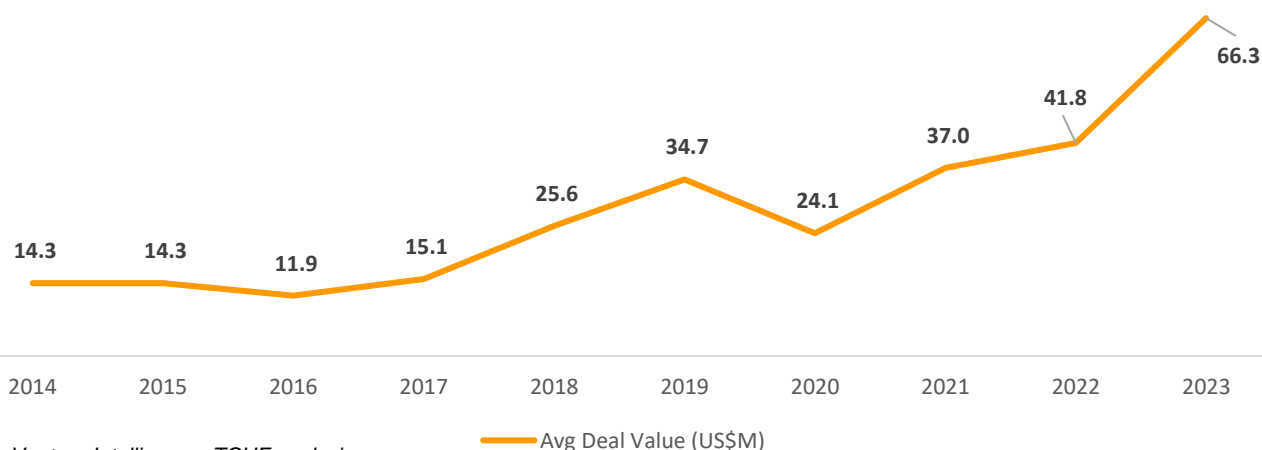


Source: Venture Intelligence, TCHF analysis

2. The record 2023 average ticket size is both positive and negative for the segment

The US\$66.3 Mn average ticket size should be considered in the context of deal volume which dropped to 9 year low of 87 transactions; the increase in average ticket size can be attributed to some large (>500Mn) deals that were completed in 2023. Overall for the space, the larger ticket size transactions are a positive indicating the growing maturity of the segment. However, we believe that going forward in 2024, the average ticket size could see a slight downward correction as early stage investments see a recovery in the healthcare and lifescience segment.

India Healthcare Average ticket size of private investments (2014-23) – US\$(Mn)



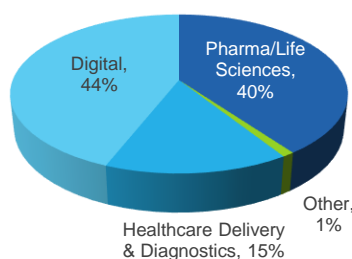
Source: Venture Intelligence, TCHF analysis

3. Healthcare Delivery subsegment has taken the lion’s share of the funding towards the sector

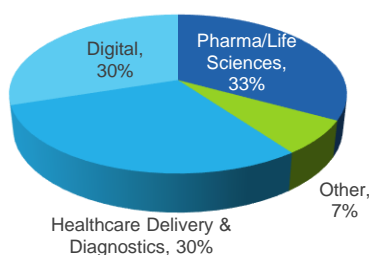
The Healthcare Delivery and Diagnostics sub-segment had the best year in private capital funding history with US\$4.8Bn (84% of total private capital funding in the sector) being cornered by this subsegment. The subsegment was benefitted by marquee large transactions like Manipal Hospitals, Care Hospitals and Indira IVF which cumulatively recorded US\$3.8Bn in deal value. Meanwhile, the other key sub-segments of Pharma/Lifesciences and Digital cumulatively saw only US\$676 Mn in deal value which is 60% below the funding received by the two subsegments in 2022.

Looking ahead towards 2024, we expect Medical Devices which is classified in “Others” currently to attract over US\$1Bn in funding, the digital subsegment will see a recovery but is not expected to return to traction the sub-segment saw in 2021 and 2022, Pharma and Lifesciences subsegment is estimated to see an improvement over 2023 and we expect a downtick in the Healthcare Delivery and Diagnostics due to the high base effect.

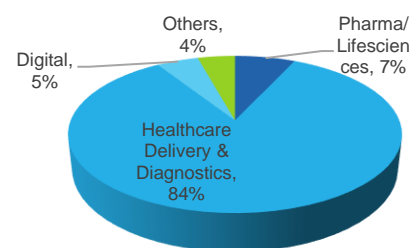
Segment Share of Private Investments (2021)



Segment Share of Private Investments (2022)



Segment Share of Private Investments (2023)

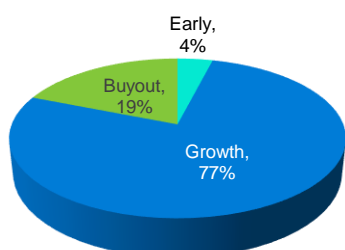


Source: Venture Intelligence, TCHF analysis

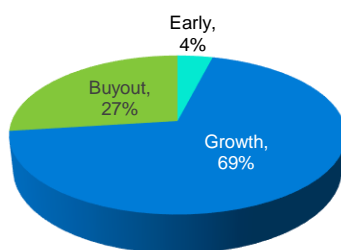
4. Buyout deals cornered 84% of the total private capital invested in 2023

We have seen increased buyout activity over the past 2 years but 2023 stood out as Buyout segment has taken the majority share of private capital funding in the sector, we believe this is an aberration due to the very large transactions mentioned above in the healthcare delivery space and expect growth capital to continue taking a majority share. However, buyout activity will continue take a significant share in the segment as healthcare entrepreneurs are becoming comfortable to let go of control which is a positive trend for the sector overall.

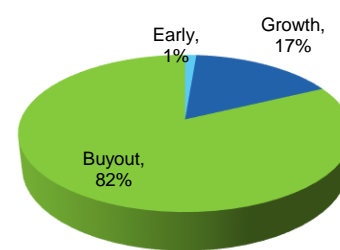
Deal Value by Stage of Investment (2021)



Deal Value by Stage of Investment (2022)



Deal Value by Stage of Investment (2023)

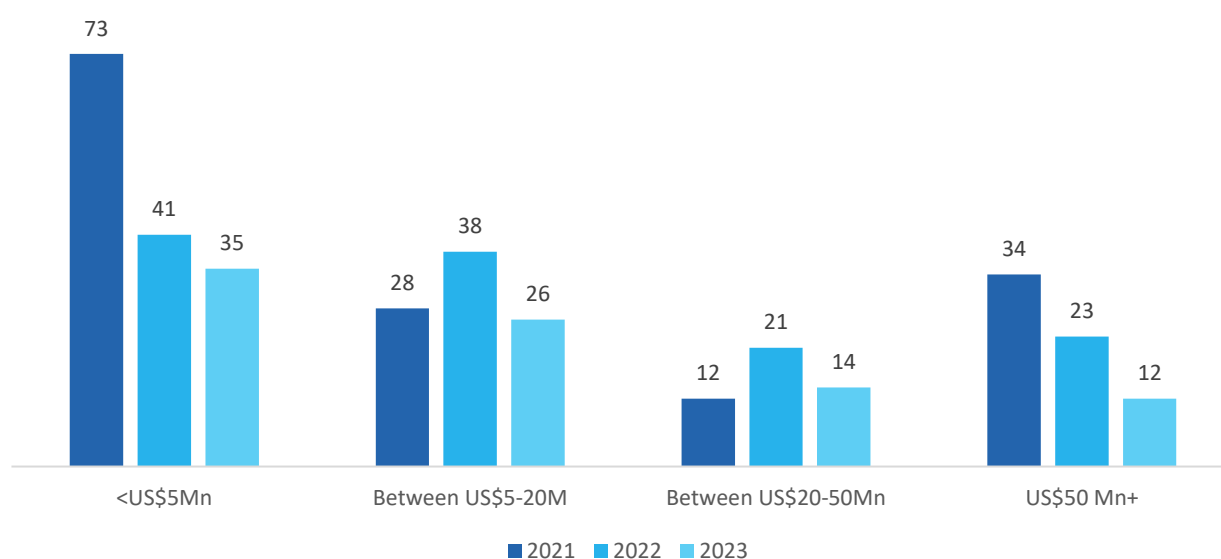


Source: Venture Intelligence, TCHF analysis

5. Transactions in the > US\$5Mn are increasing as the healthcare industry in the country matures

Based on the three-year historical data of deal volume across deal size, we observe that the <USD 5Mn segment has seen a significant drop off (~55%) which can be attributed to the overall weak market sentiment in early stage investments in 2022 and 2023. We also note that the >USD 50Mn segments have dropped by (~65%) in 2023 vs 2021, however the size of the smaller number of transactions is much larger averaging US\$125Mn+ (after removing the >US\$500Mn transactions) than preceding years which points to an interesting trend that entrepreneurs are interested in buyout transactions at >US\$100Mn valuation of their companies.

Deal volume split based on deal size (2021,2022 and 2023)



Source: Venture Intelligence, TCHF analysis